HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

Financial Statements

December 31, 2012 and 2011

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To the Board of Directors
Humane Society for Tacoma and Pierce County
Tacoma, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Humane Society for Tacoma and Pierce County (a nonprofit organization) (the "Humane Society"), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statement
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Humane Society for Tacoma and Pierce County as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Johnson, Stone & Pagano, P.S.

JOHNSON, STONE & PAGANO, P.S.

June 28, 2013

FINANCIAL STATEMENTS

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

STATEMENTS OF FINANCIAL POSITION

December 31, 2012 and 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 901,428	$ 842,821
Investments	3,342,884	2,812,612
Accounts receivable	54,779	57,732
Contributions receivable	615,899	
Inventory	63,041	63,462
Prepaid expenses	21,710	102,862
Total Current Assets	4,999,741	3,879,489
PROPERTY AND EQUIPMENT, net	3,179,270	3,173,547
GAZECKI CHARITABLE REMAINDER TRUSTS	1,510,180	1,424,859
ENDOWMENT FUNDS		
Magil Spay/Neuter Endowment	737,464	682,750
Bender Educational Endowment	408,565	378,252
Walker Cat Spay/Neuter Endowment	153,141	141,779
Nielsen Operations Endowment	16,685	15,447
Veterinary Endowment	614,484	568,894
Total Endowment Funds	1,930,339	1,787,122
OTHER ASSETS		
Beneficial interest in perpetual trusts	1,166,258	1,108,490
Loan fees, net	2,603	
Total Other Assets	1,168,861	1,108,490
TOTAL ASSETS	$ 12,788,391	$ 11,373,507

See accompanying notes to financial statements.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

STATEMENTS OF FINANCIAL POSITION (Continued)

December 31, 2012 and 2011

	2012	2011
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 51,860	$ 238,047
Accrued expenses	153,615	169,889
Deposits	5,855	10,444
Current portion of long-term liabilities	37,224	41,206
Total Current Liabilities	248,554	459,586
LONG-TERM LIABILITIES, net of current portion	1,021,976	848,307
Total Liabilities	1,270,530	1,307,893
NET ASSETS		
Unrestricted	8,123,115	7,351,072
Unrestricted - board designated endowment	1,202,084	1,058,867
Temporarily restricted	1,165,693	628,706
Permanently restricted	1,026,969	1,026,969
Total Net Assets	11,517,861	10,065,614
TOTAL LIABILITIES AND NET ASSETS	$ 12,788,391	$ 11,373,507

See accompanying notes to financial statements.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

STATEMENTS OF ACTIVITIES

Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Contributions and other	$ 1,657,520	$ 749,356		$ 2,406,876
Service fees	1,393,721			1,393,721
Spay/neuter fees	214,717			214,717
Adoption fees	175,469			175,469
Drop off fees	324,174			324,174
Sales of pet supplies	65,465			65,465
Investment return	499,984			499,984
Change in value of trusts	118,654	24,436		143,090
Other income	5,873			5,873
Net assets released from restrictions	236,805	(236,805)		
Total Revenue and Support	4,692,382	536,987		5,229,369
FUNCTIONAL EXPENSES				
Program services	3,148,238			3,148,238
Supporting services				
Management and general services	355,449			355,449
Development and fund-raising	273,435			273,435
	628,884			628,884
Total Functional Expenses	3,777,122			3,777,122
CHANGE IN NET ASSETS	915,260	536,987		1,452,247
Net Assets at Beginning of Year	8,409,939	628,706	$ 1,026,969	10,065,614
NET ASSETS AT END OF YEAR	$ 9,325,199	$ 1,165,693	$ 1,026,969	$ 11,517,861

See accompanying notes to financial statements.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

STATEMENTS OF ACTIVITIES (Continued)

Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Contributions and other	$ 737,053	$ 321,083		$ 1,058,136
Service fees	1,429,204			1,429,204
Spay/neuter fees	211,088			211,088
Adoption fees	191,433			191,433
Drop off fees	296,777			296,777
Sales of pet supplies	75,160			75,160
Investment return	(8,070)			(8,070)
Change in value of trusts	226,883	(32,166)		194,717
Other income	10,679			10,679
Net assets released from restrictions	117,488	(117,488)		
Total Revenue and Support	3,287,695	171,429		3,459,124
FUNCTIONAL EXPENSES				
Program services	2,871,370			2,871,370
Supporting services				
Management and general services	469,183			469,183
Development and fund-raising	303,859			303,859
	773,042			773,042
Total Functional Expenses	3,644,412			3,644,412
CHANGE IN NET ASSETS	(356,717)	171,429		(185,288)
Net Assets at Beginning of Year	8,766,656	457,277	$ 1,026,969	10,250,902
NET ASSETS AT END OF YEAR	$ 8,409,939	$ 628,706	$ 1,026,969	$ 10,065,614

See accompanying notes to financial statements.

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,452,247	$ (185,288)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	166,693	150,881
Gain on investments, property and trusts	(642,578)	(95,942)
Net change in operating assets and liabilities		
Increase in accounts receivable	2,953	(2,165)
Increase in contributions receivable	(615,899)	
(Increase) decrease in inventory	421	(48,662)
(Increase) decrease in prepaid expenses	81,152	(41,050)
Increase (decrease) in accounts payable	(186,187)	177,408
Increase (decrease) in accrued expenses	(16,274)	52,774
Increase (decrease) in deposits	(4,589)	3,077
Increase in deferred compensation	10,975	30,515
Net Cash Provided by Operating Activities	248,914	41,548
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(171,894)	(252,305)
Purchase of investments	(2,689,222)	(1,246,248)
Proceeds from sale of investments	2,515,222	1,438,711
Net Cash Used by Investing Activities	(345,894)	(59,842)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of loan fees	(3,125)	
Payments on bank loan	(25,288)	(118,576)
Proceeds from debt	200,000	
Deferred compensation payments	(16,000)	(16,000)
Net Cash Provided (Used) by Financing Activities	155,587	(134,576)
NET INCREASE (DECREASE) IN CASH	58,607	(152,870)
Cash at Beginning of Year	842,821	995,691
CASH AT END OF YEAR	$ 901,428	$ 842,821
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 38,501	$ 51,505

See accompanying notes to financial statements.

NOTE 1 - DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Operations

The mission of the Humane Society for Tacoma and Pierce County (the "Humane Society") is to advance the welfare of animals and to promote positive relationships between animals and people. This mission is accomplished through a variety of programs.

Through the Adoption Program and the Senior Pet Adoption Program, all healthy, adoptable owner-released and stray animals are available for adoption by persons agreeing to provide appropriate care throughout the adopted animal's lifetime. Pet overpopulation is diminished under the Spay/Neuter Program. For animals deemed "unadoptable" by veterinary staff due to extreme aggressive behavior problems, illness or injury, the Humane Society performs humane euthanasia services that are in the best interest of the animal and the public. Performance of euthanasia services requires a specialized license which the Humane Society is required to renew annually.

Pets with a Purpose provide pet-assisted visitation and outreach services to the elderly and disabled. Positive relationships between people and animals are also fostered by the Development, Humane Education and Volunteer Programs.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting. The Humane Society is required to report information regarding its financial position and activities according to three classes of net assets based on the absence or existence and nature of donor-imposed restrictions as follows:

- *Unrestricted net assets* - Net assets that are not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Humane Society pursuant to those stipulations or that expire by the passage of time.
- *Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Humane Society. Generally, the donors of such assets permit the Humane Society to use all or part of the income earned on the assets.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Humane Society considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Assets for which the Humane Society has credit risk consist of monies held by one financial institution in the form of money market and checking accounts in excess of Federal Deposit Insurance Corporation limitations. Management of the Humane Society does not anticipate any material adverse effect on its financial position as a result of the concentration of credit risk.

NOTE 1 - DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable
Accounts receivable primarily represents contracts with individual municipalities. Management has evaluated the accounts and believes they are all collectible; therefore, no allowance for uncollectible accounts has been provided.

Investments
Investments are stated at fair value. Realized and unrealized gains and losses are reflected in the statement of activities.

Fair Value Measurements
The Humane Society applies authoritative guidance related to fair value measurements that defines fair value, provides a framework to measure the fair value of assets and liabilities, and requires certain disclosures about those measurements. The guidance establishes a hierarchy to prioritize the inputs that underlie a fair value measurement and requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs essentially distinguish the relative reliability of inputs to fair value measurements. Level 1 inputs are more reliable and objective than Level 2 inputs which are in turn more reliable and objective than Level 3 inputs. In arriving at a fair value measure, The Humane Society is required to determine the level in the fair value hierarchy within which a fair value measurement ultimately falls and provide disclosure of such determinations.

Inventory
Inventory is stated at the lower of cost or market and primarily includes pet supplies for resale.

Property and Equipment
Property and equipment are stated at cost or, if acquired by gift, at the estimated fair value at the date of the gift. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Gains and losses from disposition of property and equipment are recognized in the year of disposition. The estimated useful lives are summarized as follows:

	Years
Buildings and improvements	25 - 40
Vehicles	5
Plant and office equipment	5 - 7

Depreciation expense for the years ended December 31, 2012 and 2011 was $166,171 and $145,877, respectively.

NOTE 1 - DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting for Long-lived Assets
The Humane Society makes a determination as circumstances indicate necessary as to whether the value of long-lived assets, including assets to be disposed of, have been impaired. The determination is based on several criteria, including, but not limited to, revenue trends, undiscounted operating cash flows and other operating factors. In management's opinion there were no impairment adjustments for the years ended December 31, 2012 and 2011, respectively.

Loan Fees
The Humane Society amortizes initial costs associated with the financing of its building over the life of the loans using the effective interest method. In 2012, an additional $3,125 in loan fees was recognized due to the refinancing of the debt. Amortization expense related to these fees was $522 for the year ended December 31, 2012.

Deposits
A fee is collected for each adopted puppy which is refundable upon completion of a puppy training class. Forfeited fees are recognized as revenue when the training is not completed and the forfeitures become known.

Contributions
The Humane Society records contributions, including unconditional promises to give, in the period made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

Recognition of Donor-Restricted Contributions
All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

NOTE 1 - DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Goods and Services
Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. The Humane Society received donated goods and services totaling $25,149 and $19,592 during the years ended December 31, 2012 and 2011, respectively. The Humane Society receives significant amounts of volunteer services as part of its normal operations. Approximately 76,000 and 95,000 hours of volunteer services were received during the years ended December 31, 2012 and 2011, respectively, but were not recognized in the accompanying financial statements because the criteria for recognition have not been satisfied.

Income Tax
The Humane Society is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation. The Humane Society's legal name is the Tacoma-Pierce County Humane Society and Society for the Prevention of Cruelty to Animals. The information returns of the Humane Society for tax years ended December 31, 2011, 2010 and 2009 remain subject to potential examination.

Advertising
The costs of advertising are expensed as incurred. Advertising expense was $18,218 and $7,422 for the years ended December 31, 2012 and 2011, respectively, of which $4,500 and $4,000 of advertising expense was from gifts in kind of donated services, respectively.

Functional Allocation of Expenses
The costs of providing the Humane Society's program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program services and supporting services on the basis of benefits received.

Use of Estimates
Management makes estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Subsequent Events
The Humane Society evaluated for subsequent events through June 28, 2013, the date the statements were available to be issued.

Reclassifications
Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

NOTE 2 - INVESTMENTS

Investments are classified on the statement of financial position as follows at December 31:

	2012	2011
Investments	$ 3,342,884	$ 2,812,612
Magill Endowment	737,464	682,750
Bender Endowment	408,565	378,252
Walker Endowment	153,141	141,779
Neilsen Endowment	16,685	15,447
Milgard Veterinary Endowment	614,484	568,894
	$ 5,273,223	$ 4,599,734

Investment return is summarized as follows at December 31:

	2012	2011
Interest and dividend income	$ 137,780	$ 65,881
Net realized and unrealized gain (loss)	362,204	(73,951)
	$ 499,984	$ (8,070)

NOTE 3 - FAIR VALUE MEASUREMENTS

Fair values of investments measured on a recurring basis through application of applicable authoritative literature, at December 31, 2012 and 2011, are as follows:

		Fair Value Measurements	
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Fair Value Measurements at December 31, 2012			
Investments			
Certificates of deposit	$ 310,312	$ 310,312	
Mutual funds	3,109,262	3,109,262	
Bond funds	1,807,999	1,807,999	
Cash value of life insurance policy	45,650		$ 45,650
Total Investments	5,273,223	5,227,573	45,650

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

		Fair Value Measurements	
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Gazecki Charitable Remainder Trusts	$ 1,510,180		$ 1,510,180
Beneficial interest in perpetual trusts	1,166,258		1,166,258
	$ 7,949,661	$ 5,227,573	$ 2,722,088
Fair Value Measurements at December 31, 2011			
Investments			
Certificates of deposit	$ 456,096	$ 456,096	
Mutual funds	2,728,623	2,728,623	
Bond funds	1,370,365	1,370,365	
Cash value of life insurance policy	44,650		$ 44,650
Total Investments	4,599,734	4,555,084	44,650
Gazecki Charitable Remainder Trusts	1,424,859		1,424,859
Beneficial interest in perpetual trusts	1,108,490		1,108,490
	$ 7,133,083	$ 4,555,084	$ 2,577,999

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, consists of the following:

	2012	2011
Building and improvements	$ 4,447,491	$ 4,457,927
Vehicles	112,038	112,038
Plant and office equipment	889,868	707,538
Land	164,322	164,322
	5,613,719	5,441,825
Less accumulated depreciation	2,434,449	2,268,278
	$ 3,179,270	$ 3,173,547

NOTE 5 - GAZECKI CHARITABLE REMAINDER TRUSTS

The Humane Society is a beneficiary of two irrevocable charitable remainder unitrusts contributed by William Gazecki, a former board member. Trust assets are held by an independent trustee. Under the terms of the split-interest agreements, the donor is to receive distributions over the term of the trust. The present value of future benefits to be received is estimated to be $1,510,180 at December 31, 2012. The benefits intended to create the maintenance endowment fund have been reclassified as temporarily restricted. The present value of estimated future cash flows is based upon the donor's life expectancy and a discount rate of 3%.

As of December 31, 2012, the remainder amount received at the end of the term is to be used as follows:

To reimburse the Humane Society capital campaign in order to retire debt incurred for construction of the building	$ 1,067,038
To create the William J. Gazecki Maintenance Endowment Fund	443,142
	$ 1,510,180

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are as follows at December 31:

	2012	2011
Restricted for specific programs	$ 106,652	$ 210,000
William J. Gazecki Maintenance Endowment Fund	443,142	418,706
Time restricted contributions receivable	615,899	
	$ 1,165,693	$ 628,706

NOTE 7 - ENDOWMENTS

The Humane Society's endowment consists of various funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Humane Society Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTE 7 - ENDOWMENTS (Continued)

The following is a schedule of endowments at December 31, 2012:

	Board Designated	Permanently Restricted	Total
Magill Spay/Neuter Endowment	$ 637,264	$ 100,200	$ 737,464
Bender Educational Endowment	402,779	5,786	408,565
Walker Cat Spay/Neuter Endowment	43,427	109,714	153,141
Neilsen Operations Endowment	4,130	12,555	16,685
Milgard Veterinary Endowment	114,484	500,000	614,484
	$ 1,202,084	$ 728,255	$ 1,930,339

The following is a schedule of endowments at December 31, 2011:

	Board Designated	Permanently Restricted	Total
Magill Spay/Neuter Endowment	$ 582,550	$ 100,200	$ 682,750
Bender Educational Endowment	372,466	5,786	378,252
Walker Cat Spay/Neuter Endowment	32,065	109,714	141,779
Neilsen Operations Endowment	2,892	12,555	15,447
Milgard Veterinary Endowment	68,894	500,000	568,894
	$ 1,058,867	$ 728,255	$ 1,787,122

Interpretation of Relevant Law Applicable to Temporarily or Permanently Restricted Funds Donor-restricted funds are classified as permanently restricted net assets and are subject to the Washington State Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). The Board of Directors has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Humane Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the restricted endowment fund that is not classified in the permanently restricted funds would be considered temporarily restricted until those amounts are appropriated for expenditure by the Humane Society in a manner consistent with the standard of prudence prescribed by UPMIFA.

NOTE 7 - ENDOWMENTS (Continued)

Changes in endowment net assets for the year ended December 31, 2012 are as follows:

	Unrestricted	Permanently Restricted	Total
Endowment net assets - January 1, 2012	$ 1,058,867	$ 728,255	$ 1,787,122
Investment return:			
Investment income	55,947		55,947
Net appreciation realized and unrealized	174,329		174,329
Total Investment Return	230,276		230,276
Appropriation of endowment			
Expenses	(11,059)		(11,059)
Distribution	(76,000)		(76,000)
Total Appropriation of Endowment	(87,059)		(87,059)
Endowment Net Assets - December 31, 2012	$ 1,202,084	$ 728,255	$ 1,930,339

Changes in endowment net assets for the year ended December 31, 2011 are as follows:

	Unrestricted	Permanently Restricted	Total
Endowment net assets - January 1, 2011	$ 1,064,422	$ 728,555	$ 1,792,977
Investment return:			
Investment income	24,720		24,720
Net depreciation realized and unrealized	(19,974)		(19,974)
Total Investment Return	4,746		4,746
Appropriation of endowment			
Expenses	(10,301)	(300)	(10,601)
Endowment Net Assets - December 31, 2011	$ 1,058,867	$ 728,255	$ 1,787,122

NOTE 7 - ENDOWMENTS (Continued)

Funds with Deficiencies
From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Humane Society to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are to be reported. There were no such amounts to report for the years ended December 31, 2012 and 2011, respectively. With the current economic conditions, it is possible that such deficiencies may occur in the future.

Return Objectives and Risk Parameters
The Humane Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Humane Society must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that are to be compared regularly to the performance of equity and fixed income market indices, while assuming a moderate level of investment risk. The Humane Society expects its endowment funds, over time, to provide an average rate of return of approximately 8 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objective
To satisfy its long-term rate-of-return objectives, the Humane Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Humane Society targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

NOTE 8 – BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The Humane Society is the beneficiary of two perpetual trusts, with beneficial interests totaling $1,166,258 and $1,108,490 at December 31, 2012 and 2011, respectively. The assets are held by an independent trustee. The Humane Society was given an irrevocable right to receive the income from the trust assets in perpetuity for support of general operations. The beneficial interests were recorded at the fair value of the assets in the underlying trusts, and are adjusted annually for changes in fair market value.

The Humane Society is also the beneficiary of an irrevocable trust in which the Humane Society receives 20% of the income on an annual basis. The beneficial interest in the trust was originally recorded at the fair value of the assets in the underlying trust, and is adjusted annually for changes in the fair market value of the Humane Society's interest in the trust.

NOTE 9 - LONG-TERM LIABILITIES

Long-term liabilities at December 31 consist of a note payable to a bank. Details for this liability are described below:

	2012	2011
In April 2012, the Humane Society refinanced the outstanding loan balance plus an additional $200,000 for a total note of $958,575. The new note is payable in monthly payments of $5,468 including accrued interest at 4.68%, due April 1, 2017. Collateralized by deed of trust.	$ 945,304	
Note payable, monthly installments of $14,173, including interest accrued at the variable rate of the 10-year Constant Maturity T Bill, plus 2.85%.		$ 770,592

Future payments to be made on long-term debt based on interest rates and terms in effect at December 31, 2011 are as follows:

2013	$ 21,224
2014	22,253
2015	23,333
2016	24,346
2017	854,148
Total	$ 945,304

Deferred Compensation Agreement
The Humane Society has a deferred compensation agreement with a former employee to provide retirement benefits in the amount of $16,000 per year for her lifetime. The estimated net present value of the payments totaling $113,896 at December 31, 2012, has been recorded using a discount rate of 6.5%.

NOTE 10 - PENSION PLANS

The Humane Society is a contributing employer to the Western Conference of Teamsters Pension Trust Fund for the hours worked by eligible union employees. Contributions to this plan were $134,650 and $138,170 for the years ended December 31, 2012 and 2011, respectively.

NOTE 10 - PENSION PLANS (Continued)

Employees who have reached their second employment anniversary and worked more than 300 service hours in a calendar year and who are not covered under a collective bargaining agreement are eligible to participate in a simplified employee pension plan that was adopted in 1996. Contributions to this plan were $44,965 and $46,551 for the years ended December 31, 2012 and 2011, respectively.

The Humane Society also offers a tax-sheltered annuity plan to its employees. All employees may make voluntary contributions to this plan.

NOTE 11 - CONCENTRATION OF SOURCE OF SUPPLY OF LABOR

All hourly employees (representing approximately 90% of the Humane Society's employees) are covered under a labor agreement. The contract with the union was renegotiated in 2008 and expires in 2014. The Humane Society's other employees are not represented by a union.

SUPPLEMENTAL FINANCIAL INFORMATION

HUMANE SOCIETY FOR TACOMA AND PIERCE COUNTY

SUMMARY OF ALL UNITS

For the Twelve Months Ending December 31, 2012 and 2011

	Sheltering and Adoptions Services	Spay/Neuter Services	Medical Services	Community Awareness	Volunteers	Total Program Services	Management & General	Fundraising	Total Supporting Services	Total Expenses	Total 2011
Salary and wages	$ 654,492	$ 197,630	$ 337,487	$ 16,123	$ 91,278	$ 1,297,010	$ 133,609	$ 129,163	$ 262,772	$ 1,559,782	$ 1,487,274
Payroll taxes and benefits	304,179	91,849	156,849	7,493	42,422	602,792	50,069	48,106	98,175	700,967	672,772
Total Employment Expenses	958,671	289,479	494,336	23,616	133,700	1,899,802	183,678	177,269	360,947	2,260,749	2,160,046
Depreciation and amortization	115,356	2,526	19,675		21,818	159,375	4,410	2,908	7,318	166,693	150,882
Medical supplies	337	887	188,712		86	190,022				190,022	197,074
Interest expense	26,725	600	4,500		5,000	36,825	1,001	675	1,676	38,501	51,505
Advertising and promotion	951	310	360		58	1,679	9,975	6,564	16,539	18,218	7,422
Community veterinary services	328	312,494	38,745			351,567				351,567	372,834
Charitable support							10,000		10,000	10,000	
Utilities	73,144	1,602	12,484		13,834	101,064	2,466	1,844	4,310	105,374	104,198
Printing	5,162			7,286		12,448	7,061	21,970	29,031	41,479	45,405
Professional fees			7,480			7,480	26,805	5,406	32,211	39,691	66,231
Computer maintenance and repair	19,960	4,538	4,538		851	29,887	6,307	12,742	19,049	48,936	44,829
Office supplies	19,604	2,331	2,264		2,534	26,733	6,341	25,562	31,903	58,636	56,463
Postage	679	1,664	93		182	2,618	2,054	10,783	12,837	15,455	17,736
Insurance	14,020	169	1,220	2,602	3,723	21,734	241	180	421	22,155	23,372
Food and provisions	31,602		3,674			35,276	27		27	35,303	22,024
Education and training	645		180		528	1,353	4,801	220	5,021	6,374	5,351
Meetings	55				776	831	10,044	253	10,297	11,128	10,514
Household and Institutional	45,212	159	509		233	46,113	17,315	263	17,578	63,691	69,347
Telephone	7,524	3,046	2,821		1,404	14,795	3,623	2,542	6,165	20,960	22,221
Deceased animal disposal	32,776					32,776				32,776	31,082
Office expense	12,056	1,059	1,294		1,231	15,640	7,414	2,579	9,993	25,633	15,143
Repair and maintenance	60,706	251	5,685		2,164	68,806	16,205	571	16,776	85,582	65,556
Membership dues	50		32		512	594	8,030	205	8,235	8,829	5,733
Equipment lease					132	132	1,760		1,760	1,892	3,624
Building, property and parking	6,109	134	1,042		1,155	8,440	206	154	360	8,800	11,249
Vehicles	2,519	3,529			1,226	7,274	498	41	539	7,813	8,404
Computer supplies	835	318	318		60	1,531	1,317	257	1,574	3,105	1,780
Bad debt and NSF expense							23,193		23,193	23,193	3,965
Collars and leashes	3,927					3,927				3,927	8,099
Pet store supplies					45,038	45,038				45,038	29,763
Taxes, licenses and fees	17,717	388	3,022		3,351	24,478	677	447	1,124	25,602	32,560
Total Operating Expenses	$ 1,456,670	$ 625,484	$ 792,984	$ 33,504	$ 239,596	$ 3,148,238	$ 355,449	$ 273,435	$ 628,884	$ 3,777,122	$ 3,644,412